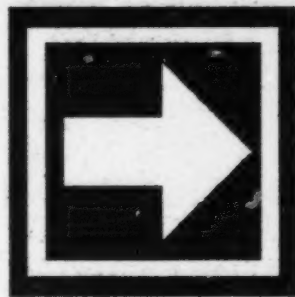
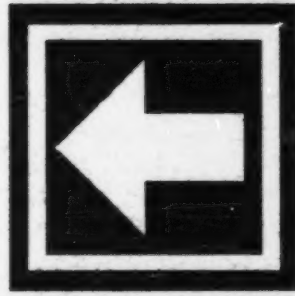


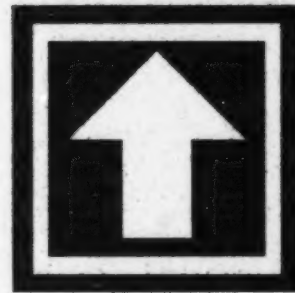
**COMPARATIVE
ASPECTS
OF**



**THE INSURANCE
CORPORATION
OF BRITISH
COLUMBIA**



**AND
PRIVATE SECTOR
INSURANCE
COMPANIES IN
CANADA**



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**COMPARATIVE ASPECTS
OF THE
INSURANCE CORPORATION OF BRITISH COLUMBIA
AND PRIVATE SECTOR INSURANCE
COMPANIES IN CANADA**

Prepared by
The Insurance Corporation of British Columbia

Incorporating material prepared and published by:

Autoplan Motorist Kit
Baltimore Sun
BC Motor Vehicle Branch
British Columbia Report Magazine
Edmonton Sunday Sun
Financial Post
ICBC Annual Financial Reports
Insurance Bureau of Canada
New York State Insurance Department
Ontario Automobile Insurance Board
The Vancouver Province
Transport Canada

March, 1990

In order to compare ourselves to the private sector a number of areas must be examined. A brief outline of the pertinent factors is contained on the following pages. They are captioned as follows:

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BC must contend with one of the worst injury and fatality rates in Canada.

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ICBC has led the way in responding to a North American-wide concern.

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The application of these requirements to a crown corporation would penalize the individual policyholder unnecessarily.

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Virtually all insurance companies charge additional premiums for moving violations.

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Eight specific advantages for BC citizens.

1. ADMINISTRATIVE EFFICIENCY

a. Expense Ratio

The expense ratio (an industry expression used to define the cost of doing business but not including claims and relative costs) for the Insurance Corporation was 13% in 1989. Collectively, the private sector's auto-related expense ratio is much higher at 23%. Neither of these percentages include premium tax. In 1989 claims costs in BC totalled \$1.12 billion. ICBC needed to collect \$1.24 billion in premiums to meet that commitment. The private sector, using their expense ratio of 23% would have needed \$1.46 billion! That is \$217 million more, or an additional cost to each policyholder of \$103.

b. Economies of Scale

The Insurance Corporation of BC by its very nature, is the largest and one of the most efficient insurers of automobiles in Canada. The economies of scale are of significant benefit to the motorists of BC.

c. Autoplan Policy Documents per Corporate Employee

A measure of employee productivity is the number of policy documents (new and renewal policies, mid-term changes) handled per employee. Details are shown below:

<u>1989</u>	<u>1987</u>	<u>1984</u>
1291	1284	1253

d. Autoplan Claims per Corporate Employee

<u>1989</u>	<u>1987</u>	<u>1985</u>
243	221	208

e. Dial-a-Claim Calls per Department Employee

<u>1989</u>	<u>1987</u>	<u>1985</u>
9,301	8,832	7,728

f. Customer Service Calls per Department Employee

<u>1989</u>	<u>1986</u>	<u>1985</u>
4,824	4,501	4,092

2. INVESTMENTS

All of the Autoplan Fund's investment income is used to reduce premiums for BC motorists. In 1989 that amounted to \$278.5 million or an average reduction of \$133 per policy.

In the 16 years of ICBC's existence, investment income has totalled more than \$1.7 billion. These funds were broadly injected into the BC economy through the increased income available to each motorist for discretionary spending.

The Insurance Corporation is unique in that its investments are controlled in BC with a "BC First" policy whenever appropriate.

The BC management of the investment fund of \$2.4 billion is a major contributor to the growth of Vancouver as a financial centre.

3. COVERAGE AND PROTECTION

The Insurance Corporation cannot be selective in providing Autoplan insurance. It must provide basic liability and accident benefit coverage to all owners of vehicles licensed in the province.

Compulsory coverage ensures that every victim of a motor vehicle accident who has a claim against a BC motorist, has recourse to at least \$200,000, in addition to no-fault accident benefits.

Regardless of who is at fault in an accident, ICBC pays no-fault benefits for injury to occupants of the vehicle and to pedestrians or cyclists injured by that vehicle. These benefits include reasonable medical and rehabilitation expenses, subject to a limit of \$150,000 for each injured person; which is considerably higher than coverage provided by private insurers.

An unidentified (hit-and-run) claim is one in which the person responsible for damage to property cannot be identified. The basic coverage provided by ICBC includes protection for such an occurrence for all BC residents with a \$150 deductible. In six other provinces the coverage is only available to those who actually purchase collision - this includes Ontario. Elsewhere, in Alberta and Quebec for example, hit and run claims are paid from a public fund, and the deductibles are \$200 and \$250 respectively.

Protection from an uninsured motorist for property damage is provided free of deductible only by the public insurers in BC, Manitoba and Saskatchewan. In all provinces where there is private sector insurance a deductible is charged, ranging from \$100 to \$250.

The Insurance Corporation was one of the first auto insurers in Canada to introduce Underinsured Motorist Protection. This optional coverage provides extended protection against bodily injury or death for the insured who is the victim of an accident caused by a motorist who carries lower limits of liability insurance. The limits of the victim's own coverage apply. This coverage is valid wherever Autoplan applies.

4. UNIVERSAL COVERAGE

The Insurance Corporation has a single licensing and insuring document that virtually guarantees that every motorist resident in the province is carrying insurance. This results in two very significant benefits: all vehicle owners contribute to the Autoplan fund to pay claims, and all residents of the province have at least minimum protection in the event of an auto-related injury.

Many jurisdictions where private sector companies operate have laws pertaining to mandatory coverage. However, because licence plates and insurance coverage in those jurisdictions are purchased (or cancelled) separately, estimates of uninsured vehicles on the road range from 5% to 20%. In Ontario, for instance, that translates into anything from 250,000 to one million vehicles being driven around the streets and highways with no insurance.

5. PREMIUM COMPARISONS

Auto accident statistics, make it clear that, for whatever reasons, British Columbia presents a significantly higher risk to an automobile insurance company than most other jurisdictions with respect to death and injury.

For this reason and several others, it is impossible to make absolute comparisons between BC and other jurisdictions. Nevertheless, as a general guide, there is value in attempting to show what a vehicle owner must pay for similar coverage. The following pages contain comparisons from various jurisdictions in North America.

a. Cross Canada Comparison

- 1985 Ford Tempo, to/from work, no drivers under 25, no convictions/claims in 5 years, insurance and licence plates: Coverage provided: \$1 million third party legal liability, accident benefits, collision - \$250 deductible (Van. - \$100 deductible), comprehensive - \$50 deductible.

Montreal	-	\$850
Toronto	-	917
Vancouver	-	721

Information compiled by Alan Wood, Insurance Bureau of Canada, 1989.

- A Canadian Press story from Toronto dated January 9, 1990, states that the average auto premium for Ontario will rise from \$776 in 1989 to \$807 in 1990. In 1989 the average premium for the Insurance Corporation of BC was \$580.

SUNDAY SUN (EDMONTON, AB),

JANUARY 21, 1990

EDMONTON INSURERS PLAY CATCH UP

Drivers pay moreBy JEFF HARDER
Staff Writer

A free insurance ride in the early '80s has caught up with Edmonton motorists.

Prices are expected to jump as much as 15 per cent this year, predicts Alan Wood, from Edmonton's office of the Insurance Bureau of Canada.

It boils down to an extra \$140 a year to the high-risk driver or \$50 a year for a so-called average motorist.

But according to a survey by *The Edmonton Sun*, Alberta offers the second-lowest insurance rates in Canada — next only to Saskatchewan.

The expected hikes of 15 per cent follow 1989 leaps that ranged between five and 10 per cent.

The mark-ups follow a five-year holding pattern for rates, said Susan Steeves, administrator for the Alberta Automobile Insurance Board.

The insurance board regulates the rates of basic automobile coverage. Companies operating in Alberta have to apply to the board for permission to raise those rates.

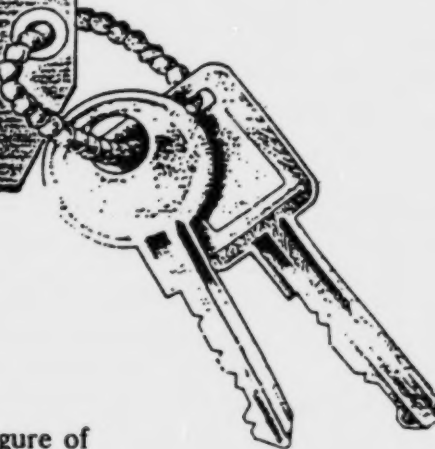
"Up until '84 companies were experiencing good results.

The following is an unscientific automobile insurance survey conducted by *The Edmonton Sun*. Unless otherwise stated, the premiums are based on \$1-million public liability and property damage, accident benefits, \$250 deductible collision and \$50 deductible comprehensive. Both drivers are male. In Alberta, females pay 30 to 40 per cent less. Both drive a 1987 Ford Tempo two-door sedans driven to work less than 15 km away.

Cities	Jan 89 (25-year-old)	Today (25-year-old clean record)	Today (25-year-old, 5yr. clean record)
Vancouver	\$721	\$878 (\$300 ded., \$100 comp.)	\$878
Edmonton	\$495	\$2,119	\$626
Regina	\$506	\$513 (\$200 ded., \$1.2M prop.)	\$513
Winnipeg	\$569	\$621	\$621
Toronto	\$917	\$3,765	\$1,059
Montreal	\$850	Would not participate	
Halifax	\$516	\$2,215	\$501

NOTE:

The January 1989 figure of \$721 for Vancouver is incorrect. It should read \$838.



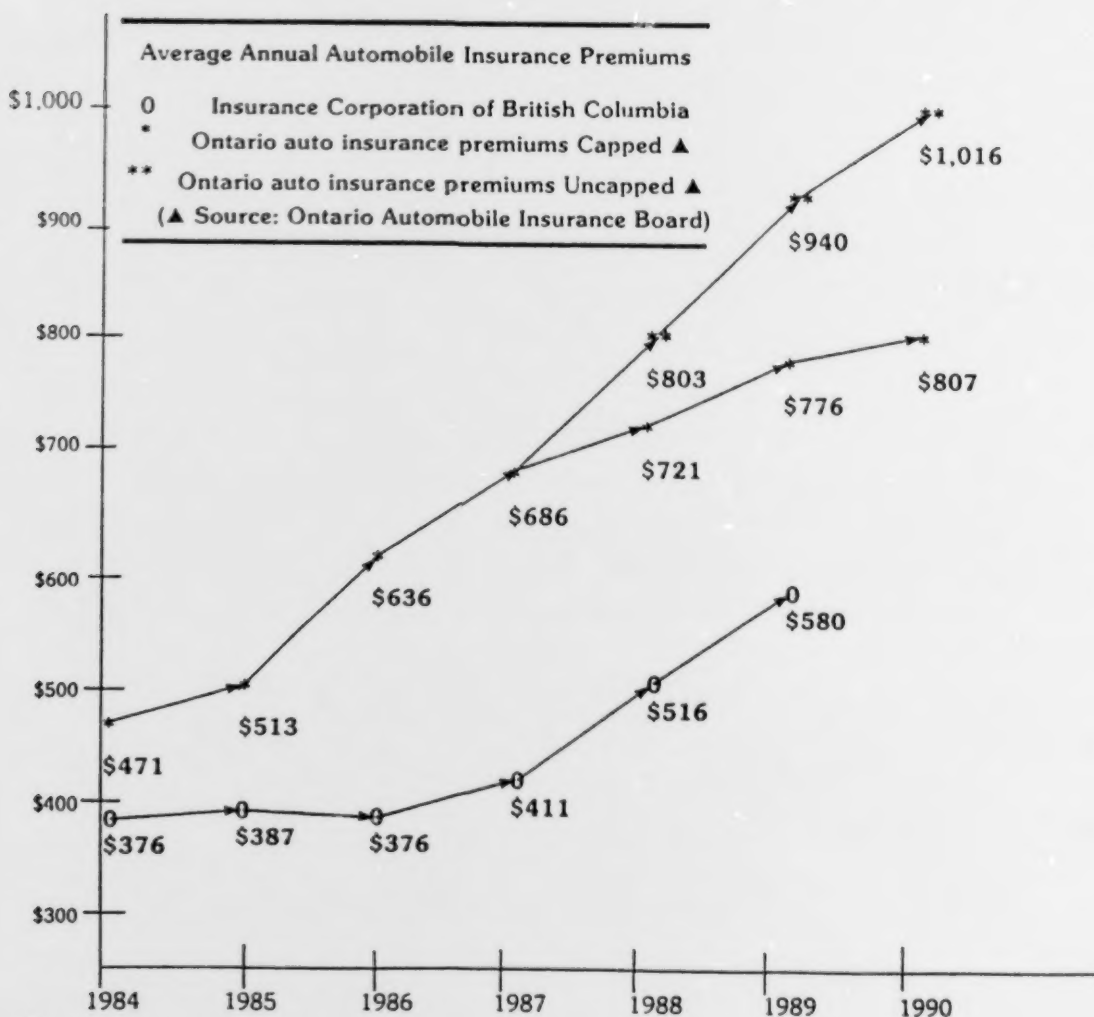
These figures were compiled by the Ontario Automobile Insurance Board. From their bar chart plus figures published in ICBC's annual reports we have constructed a graph.

The upper line indicates that in April 1987 the Ontario Government placed restrictions on increases that were allowed for auto insurance premiums and the figures of \$721 and \$776 reflect the results.

The premiums of \$803 and \$940 indicate what the public would have paid without government intervention as estimated by the OAIB.

Finally, the figure of \$1,016 was published on January 9, 1990. The lead paragraph of the story says:

"Toronto (CP) Ontario drivers would pay an average of \$1,016 for auto insurance this year instead of \$807 under the government's controversial no-fault plan - a difference of \$209, Financial Institutions Minister Murray Elston says."



b. NEW YORK METRO AREA

In the following examples the vehicle is a 1987 Ford Tempo. Coverage is \$300,000 inclusive, Accident Benefits with a limit of \$100,000 per person and Uninsured and Underinsured Coverage. Also Collision and Comprehensive with a \$200 deductible. Principal operator is three years accident and conviction free. Pleasure use only.

COMPANY	ADULT MALE-35	SINGLE MALE-20
Assigned Risk	\$3,949	\$5,161
Allstate	1,991	4,775
State Farm	1,524	4,464
Aetna	2,668	5,608
Travellers Group	2,639	6,352
ICBC - Vancouver	736	736

This state has a partial B.I. No-Fault System with a verbal threshold. Lawsuits can be brought only for economic losses exceeding No-Fault Benefits, and for non-economic damages, such as Pain and Suffering, if "Serious Injury" is sustained.

Source: Consumers Guide on Automobile Insurance issued by the New York State Insurance Department. Prices effective September 1, 1988.

- c. Typical automobile insurance rates of a major insurer for two classes of motorists in U.S. cities with highest rates. Rates are based on a 4 to 9 mile drive one way to work, good driving record, 8,000 miles driven annually and ownership of a 1987 Chevrolet Caprice. Rates are for standard automobile insurance coverage at state minimum financial responsibility limits.

45-Year-Old Male

Rank	City	Average Rates
1	New York (Bronx)	\$1,946
2	Philadelphia	1,893
3	Los Angeles	1,840
4	Miami	1,663
5	Detroit	1,597
6	San Francisco	1,211
7	Phoenix	1,066
8	Chicago	1,061
9	New Orleans	1,039
10	San Jose	942
11	Cleveland	938
12	Baltimore	935

19-Year-Old Male

Rank	City	Average Rates
1	Philadelphia	\$6,039
2	Los Angeles	4,882
3	Miami	4,675
4	New York (Bronx)	4,438
5	San Francisco	3,863
6	Phoenix	3,417
7	Chicago	3,329
8	New Orleans	3,239
9	San Jose	3,000
10	Baltimore	2,851
11	Cleveland	2,841

Printed in the Baltimore (Maryland) Sun, Sept. 24, 1989.

Through ICBC for Vancouver, BC, the comparative premiums would be:

45-Year-Old Males -	\$812
19-Year Old Males -	\$948

NOTE: ICBC premiums are 1989 and include \$300,000 inclusive, accident benefits with a limit of \$100,000 (P.I.Med) per person and uninsured and underinsured coverage. Also collision and comprehensive with a \$200 deductible.

The 45-year-old is claim free for 4 years and 19-year old for 3 years.

d. **AUTO INSURANCE RATES IN MARYLAND**

Annual rates as of August 1989 from the Baltimore Sun - September 24, 1989.

Notes on the charts

The yearly rates quoted here are based on a certain set of policyholder characteristics, and should be used only as a guide. Your rates may vary depending upon your individual circumstances. Agents for the companies listed, or companies that write policies directly, can provide the exact rates.

Auto rates quoted here are based on the assumption that a driver has taken driver's education and is the vehicle's principal owner-operator. Rates are for minimum liability coverages required by Maryland law: \$20,000 for individual or \$40,000 bodily injury per occurrence; \$10,000 for property damage; \$2,500 for personal injury protection; and \$20,000 for bodily injury per individual, \$40,000 per occurrence and \$10,000 property damage for uninsured motorists.

INSURANCE COMPANY

BALTIMORE CITY

	Male Married Age 45	Male Single Age 20	Female Single Age 20
Aetna Casualty & Surety	\$845	\$1,932	\$1,234
Allstate Ins.	784	2,192	1,377
Cigna Ins.Co.	889	1,688	1,412
Liberty Mutual	785	2,543	1,570
Nationwide Mutual	967	2,954	1,753
State Farm Mutual	537	1,771	934
ICBC for Vancouver	433	433	433

ICBC coverage is \$200,000 inclusive for third party liability. Also a limit of \$200,000 for uninsured motorist and \$100,000 for accident benefits (personal injury protection).

We assume car is driven to work.

6. SUBSIDIES IN REVERSE

It has been suggested on occasion that the Corporation is subsidized from the general revenue fund of the Province of British Columbia. This is untrue. The Corporation, in fact, pays for many items which would normally be paid for from Provincial revenues.

- The Corporation incurs costs of about \$11 million per year in its handling of licence plate records and collection of amounts for the MVB.

\$11 million

- As a result of the removal of most Autoplan transactions from Motor Licence Offices, for which no commissions were paid, and which, by agreement, was used to partially offset the cost in the previous item, the Corporation pays approximately \$7 million in commissions for this business.

\$7 million

- The Government passed the Senior Citizens Automobile Insurance Grant Act in 1981, and for the first two years reimbursed the Corporation for the cost of the discounts. This is now funded by the Corporation, at an annual cost of about \$11 million.

\$11 million

- The Government introduced a surcharge of 35% on hospital expenses attributable to the Corporation and the Workers Compensation Board. The surcharge no longer applies to the Workers Compensation Board, but we still pay about \$4 million per year.

\$4 million

- The Corporation collects substantial amounts of Social Service Tax on behalf of the Government. Unlike most other organizations, no collection fee is paid by the Government. It is estimated that this saves the Government approximately \$.5 million per year.

\$.5 million

\$33.5 million

This currently totals over \$33 million per year with an accumulated total over the years of about \$178 million and could be interpreted as a subsidy to the Government.

7. AUTO ACCIDENT STATISTICS

Injury and Fatality Rates

Between 1980 and 1986 British Columbia had one of the highest injury and fatality rates in Canada per 100 million kilometers driven, according to Transport Canada.

In 1987, Transport Canada changed the formula and published injury and casualty rates per 10,000 vehicles registered. This placed BC in a more favourable light.

The BC Motor Vehicle Branch of the Ministry of the Solicitor General cautions against attempts at inter-provincial comparisons because of inconsistencies among the provinces in collecting and reporting data. In BC, for example, a collision that causes no death or injury and less than \$400 damage doesn't have to be reported. In other jurisdictions vehicle damage must reach \$1,000 before it becomes mandatory to report the crash. And in BC if a person dies from injuries suffered in a crash more than 30 days after the accident they are no longer recorded as a traffic fatality. In other provinces the cut-off period is as long as six months.

However the message that BC has the worst driving record in Canada has been pounded home repeatedly over the years by headlines in various papers and magazines.

Report on Business magazine's June 1989 column "Statistical Lore for Everyday Living" compared the 27 accidents per 1,000 people in Ottawa to the 36 in Montreal and 70 in Vancouver "which has the worst drivers in the country."

The Vancouver Province on January 19, 1990 carried the following:

"Vancouver drivers crashed into each other so often last year they skittled the all-time accident record.

Police recorded 33,792 collisions, topping the 1981 record by almost 3,000 accidents. Fatal accidents dropped to 39 from the 1988 toll of 54, but police draw little comfort from that.

"We're pleased fewer died of course, but we know that many people who would have died in other years are now being saved by the paramedics," says traffic section Staff Sgt. Chris Offer. "And it's hard to be pleased when you consider we had 5,000 casualty accidents which left 7,000 people injured. There are many whiplash sufferers among them and there are an awful lot of paraplegics and others who are scarred for life. "The primary cause of accidents continues to be driver error brought on by speeding, inattention and following too closely."

Despite the adverse trends ICBC has limited the premium increase in 1990 to 4.8 per cent more than was collected in 1989.

8. TAXES

a. Federal Income Tax

The mandate of the Insurance Corporation is to break-even, and this has been achieved in most years. Under these circumstances the payment of federal income tax is purely academic - there simply is no income to be taxed.

It could be noted that income tax payable by the private sector is also probably an academic matter. This sector, collectively, has suffered underwriting losses in automobile insurance for the last seven years.

b. Provincial Premium Tax

The Insurance Corporation, effective April 1, 1988, pays the Provincial Government a 4 per cent premium tax per year.

c. Property and Business Tax

The Insurance Corporation pays grants equivalent to full property and business taxes to all cities and municipalities where it owns property. In 1989 these amounted to \$2.7 million.

9. DISCRIMINATION AND THE CLAIM-RATED SCALE

The government's 1979 decision to recognize that individual motorists should be judged innocent until proven guilty, and that they should be judged a safe driver until proven an unsafe driver, discarded the industry practice that whole groups should be charged a particular rate because of the actions of a part of the group. Consumer groups support this action because they believe that rate discrimination for auto insurance should apply only to those factors over which the individual has some control. For example, why should a 20-year-old, with four years of accident-free driving, pay more than a 45-year-old with the same record?

The Insurance Corporation's response was to introduce a new plan, replacing the rating factors of age, sex and marital status with the Claim-Rated Scale. This scale allows all vehicle owners to pay a premium specifically related to their individual claims experience. This scale ranges from a four year, claim-free 40 per cent discount, to a high placement on the scale as a result of being held liable for several claims.

10. SOLVENCY REQUIREMENTS

Among the solvency tests is the requirement that private sector insurance companies must have assets that exceed their liabilities by 15%. This is based on the mandate that their policyholders must have some protection in the event their insurance company experiences financial difficulty.

The application of this requirement to a crown corporation, backed by the resources of the province, just to put private and public companies on a theoretically equal footing, is simply unnecessary and inappropriate.

It would mean that ICBC would have to increase its premiums to policyholders sufficiently to collect an additional \$400 million, an amount of money the need for which simply does not exist.

It should be noted that in the four provinces where auto insurance is sold through a crown corporation, these corporations have recently reported a healthy balance sheet.

In the private sector, five companies in Canada became insolvent in the eighties.

Between 1984 and 1987 there were 59 insolvencies in the property-casualty insurance industry in the U.S.A.

11. DRIVER POINT PREMIUMS FOR MVA INFRACOCTIONS

Virtually every insurance company in North America charges an increased premium to those insureds who have been found guilty of a certain number and type of traffic violations. They have never considered this a subsidy. It is part of the legitimate income of an insurance company.

It is prudent insurance practice to recognize that those who break the laws of the road represent a greater insurance risk.

The Insurance Corporation agrees with this principle and collects a premium related to the number of penalty points a driver accumulates. Over the 16 year history of the Corporation, almost \$260 million has been received in this manner, and it is those who do not break the law that are the beneficiaries in as much as all of this revenue is used to reduce basic compulsory liability and "no-fault" accident benefit premiums.

12. SOME ADVANTAGES UNIQUE TO ICBC

a. Dial-a-Claim

A one-step system for speedily reporting claims and making appointments at one of many claim centres.

b. Claim-Rated Scale

A premium-establishing process that recognizes and enables higher premiums to be charged to those people who cause accidents and offers discounts to those who don't.

c. Independent Insurance Broker Network

Most Autoplan insurance brokers are directly connected to the central computer for instantaneous recording of every policy as it is purchased. It can be noted that in a survey conducted by the Insurance Brokers' Association of BC in August of 1988, 94% of the members stated they wanted ICBC left in its present form with no changes.

d. Economic Impact

With its head office in BC, the Insurance Corporation purchases over 80% of its office supplies and printed forms in BC, totalling more than \$6 million annually. With a head office payroll in this province of about \$58 million, a very significant consumer purchasing impact is made on the provincial economy.

e. Small Business Impact

Over 3,000 small, independent businesses, including body shops, towing companies, and independent adjusters receive payment for services every other week through the Autoplan vendor payment system. The legal profession received \$31 million from ICBC for defence costs in 1989.

f. Availability

Autoplan insurance is available to every BC resident with a licensed vehicle regardless of geographic location, driving experience, claims record, age, sex or marital status. Private sector companies continue to use risk selection as a screening device and, in addition to refusing coverage to some drivers, place many motorists who do not meet company underwriting standards in special residual market funds (Assigned Risk Plans, Facility Agreements, Joint Underwriting Associations) or "substandard" companies within insurance groups. Restricted coverage and higher premiums are the usual result. Even now in British Columbia two private insurance companies are selling additional liability, collision and comprehensive insurance; but only to motorists who have been licensed for ten years and accident-free for five!

g. Single Information Base

A single source of information on all insured vehicles and claims permits better service to law enforcement agencies, superior monitoring of manufacturers, better assessment of various risks and contributes to lower expense ratios than private companies.

h. Traffic Safety

ICBC has been an equal partner with the Ministry of the Attorney General in funding the CounterAttack program since its inception. In 1981 it assumed responsibility for the school and community aspects of that program. In addition, the Corporation has been a prime mover in bringing about the coordination of provincial traffic safety activities and has developed and implemented numerous programs throughout the province dealing particularly with drinking and driving and seat belt wearing. The formation and continued funding to its Traffic Safety Education department and, in particular, its extensive work in the school system, and at a community level throughout the province are unique in North America. This work is seen as an ongoing investment in the future of British Columbia.

Additional copies of this publication are available from:

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